

CITY OF IRON RIVER

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF IRON RIVER		County IRON
Audit Date 6/30/05	Opinion Date 9/15/05	Date Accountant Report Submitted to State: 12/21/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED

We affirm that:

DEPT. OF TREASURY

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEC 27 2005

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

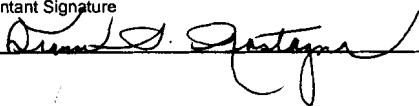
Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET		City IRON RIVER	State MI
		ZIP 49935	
Accountant Signature 			Date 12/21/05

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

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Honorable Mayor and Members of the City Council
City of Iron River
Iron River, Michigan 49935

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the **City of Iron River**, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information of the **City of Iron River** at June 30, 2005, and the respective changes in financial position and cash flows thereof for the fiscal year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005 on our consideration of the **City of Iron River's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreement, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 24 are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Iron River**'s basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the **City of Iron River**, Iron River, Michigan. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Iron River

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The management of the **City of Iron River** provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the City's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report included management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

- 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, legislative, public safety, public works, highways and streets, sanitation and health, culture and recreation, and community development. The business-type activities of the City include Water Utility, Sewer Utility, and RV Park.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which the City is financially accountable: *Downtown Development Authority*, *Tax Increment Financing Authority*, and *Community Pride*. Financial information for these component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

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Fund Financial Statements (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains six governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and major street fund, both of which are considered major funds.

All other governmental funds are presented in aggregate. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general and special revenue funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and major street funds, and is included in the "Required Supplementary Information" section of this document.

Proprietary Funds

Proprietary funds provide services for which the City charges customers a fee. The City has only one type of proprietary fund - enterprise funds. The enterprise funds of the City are used to report the same functions as the business-type activities in their government-wide financial statements. The Water Utility, Sewer Utility, and RV Park funds are presented separately in both the government-wide financial statements and the fund financial statements.

Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary funds for the City include the tax collection fund, the sick leave fund, and employee trust fund.

Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the City's major special revenue funds as presented in the governmental fund financial statements.

Separate combining financial statements for non-major governmental funds are also included in the Other Supplementary Information section of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$ 13,662,420 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending.

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2005, the City reported \$ 11,437,007 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 580,909 may be used to meet the government's ongoing obligations to citizens and creditors.

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$ 6,612,095 and \$ 7,050,325, respectively.

The following summarizes the comparative net assets at fiscal years ended June 30, 2005 and 2004:

	<u>JUNE 30, 2005</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Current and other assets	\$ 1327014	\$ 1138985	\$ 2465999
Capital assets, net	<u>5925926</u>	<u>12828936</u>	<u>18754862</u>
Total assets	7252940	13967921	21220861
Long-term liabilities	472509	6703000	7175509
Other liabilities	<u>168336</u>	<u>214596</u>	<u>382932</u>
Total liabilities	\$ 640845	\$ 6917596	\$ 7558441

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

JUNE 30, 2005

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Net assets:			
	\$	\$	\$
Invested in capital assets, net of related debt	5409071	6027936	11437007
Reserved	622115	1022389	1644504
Unreserved	<u>580909</u>	<u> </u>	<u>580909</u>
Total net assets	\$ 6612095	\$ 7050325	\$ 13662420

JUNE 30, 2004

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Current and other assets	\$ 1347217	\$ 809246	\$ 2156463
Capital assets, net	<u>5802101</u>	<u>12555247</u>	<u>18357348</u>
Total assets	7149318	13364493	20513811
Long-term liabilities	554347	6801000	7355347
Other liabilities	<u>154647</u>	<u>278892</u>	<u>433539</u>
Total liabilities	\$ 708994	\$ 7079892	\$ 7788886
Net assets:			
Invested in capital assets, net of related debt	5181895	5660247	10842142
Reserved	637328	253556	890884
Unreserved	<u>621101</u>	<u>370798</u>	<u>991899</u>
Total net assets	\$ 6440324	\$ 6284601	\$ 12724925

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

For governmental activities, net assets increased by \$ 126,291 during the fiscal year. For business-type activities, net assets increased by \$ 842,629 during the fiscal year. Of this amount, a \$ 651,777 increase is attributed to the Water Fund, \$ 204,940 is attributed to the Sewer Fund, while a decrease of \$ 14,088 is attributed to the RV Park Fund.

The following represents the comparative changes in net assets for both governmental and business-type activities for the fiscal years ended June 30, 2005 and 2004:

	JUNE 30, 2005		
	Primary Government		Total
	Governmental Activities	Business-type Activities	
REVENUES:			
<u>Program Revenues</u>			
Charges for services	\$ 472757	\$ 1582703	\$ 2055460
Operating grants and contributions	819412	0	819412
Capital grants and contributions	0	725525	725525
<u>General revenues</u>			
Property taxes	776621	0	776621
Other taxes	10318	0	10318
Unrestricted grants	461242	0	461242
Other	90934	108761	199695
Total Revenues	\$ 2631284	\$ 2416989	\$ 5048273
EXPENSES:			
General Government	492204	0	492204
Legislative	8728	0	8728
Public safety	505885	0	505885
Public works	274743	0	274743
Highways and streets	515058	0	515058
Sanitation and health	108285	0	108285
Culture and recreation	79861	0	79861
Community development	14856	0	14856
Interest on long-term debt	32335	0	32335
Other Costs	6458	0	6458
Intergovernmental	37346	0	37346
Depreciation (Unallocated)	429234	0	429234

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

JUNE 30, 2005			
Primary Government			
	Governmental Activities	Business-type Activities	Total
EXPENSES: (Continued)			
Business-type activities:	\$	\$	\$
Water	0	925985	925985
Sewer	0	604457	604457
RV Park	0	43918	43918
Total Expenses	\$ 2504993	\$ 1574360	\$ 4079353
Change in Net Assets	126291	842629	968920
Net Assets, beginning of year	6485804	6207696	12693500
Net Assets, end of year	\$ 6612095	\$ 7050325	\$ 13662420

JUNE 30, 2004			
Primary Government			
	Governmental Activities	Business-type Activities	Total
REVENUES:			
<u>Program Revenues</u>			
Charges for services	\$ 490763	\$ 1383910	\$ 1874673
Operating grants and contributions	575232	0	575232
Capital grants and contributions	10000	1697100	1707100
<u>General revenues</u>			
Property taxes	746549	0	746549
Other taxes	12297	0	12297
Unrestricted grants	482235	0	482235
Other	76805	18978	95783
Total Revenues	\$ 2393881	\$ 3099988	\$ 5493869

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	<u>JUNE 30, 2004</u>		
	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
EXPENSES:			
General Government	\$ 450650	\$ 0	\$ 450650
Legislative	6479	0	6479
Public safety	461264	0	461264
Public works	350101	0	350101
Highways and streets	513794	0	513794
Sanitation and health	148366	0	148366
Culture and recreation	62579	0	62579
Community development	16486	0	16486
Interest on long-term debt	37650	0	37650
Intergovernmental	31403	0	31403
Depreciation (Unallocated)	417351	0	417351
Business-type activities			
Water	0	913552	913552
Sewer	0	586096	586096
RV Park	<u>0</u>	<u>58673</u>	<u>58673</u>
Total Expenses	\$ 2496123	\$ 1558321	\$ 4054444
Change in Net Assets	(102242)	1541667	1439425
Net Assets, beginning of year	<u>6588046</u>	<u>4666029</u>	<u>11254075</u>
Net Assets, end of year	\$ 6485804	\$ 6207696	\$ 12693500

Governmental Activities

Property taxes and other tax revenues comprise \$ 786,939 or 30 percent of total governmental revenues.

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Governmental Activities (Continued)

Operating grants and contributions for governmental activities ended the fiscal year at \$ 819,412, primarily attributable to the State of Michigan's Act 51 funding for major and local streets. At fiscal year end, the City reported \$ 461,242 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The City expended \$ 2,504,993 on governmental programs and services. The largest expense category was incurred for highways and streets, which totaled \$ 515,058, or 20.5 percent of total expenses. General governmental expenses were \$ 492,204 or 19.6 percent of the total, and public safety expenses were \$ 505,885, or 20.2 percent of the total. Public safety expenses were attributed to management's continuing commitment to preserve the lives and property of the residents of the City. Public works expenses were \$ 274,743, or 11 percent of the total.

Component Units

The component units of the City reported total net assets of \$ 122,069, all of which is unrestricted and available for future appropriation. The change in net assets for the City's component units at June 30 was an increase of \$ 44,743.

Business-type Activities

Business-type activities increased the City's net assets by \$ 842,629. Charges for services for the Water, Sewer, and RV Park activities for the year ended were \$ 787,264, \$ 768,633, and \$ 26,806, respectively.

Total expenses for the Water, Sewer, and RV Park activities for the year ended were \$ 925,985, \$ 604,457, and \$ 43,918, respectively.

Water Fund

The City of Iron River Water System Improvement project, which began in June, 2001, consisting of a \$ 5,000,000 loan and a \$ 2,415,000 grant from the United States Department of Agriculture - Rural Development continued during the year. On June 27, 2001, the City issued the City of Iron River 2001 Water Supply System Revenue bonds for the purpose of repaying the loan. Draws to meet project liabilities are first applied to loan funding, and, when depleted, are drawn against grant funds until the completion of the project. During the fiscal year, the City drew an additional \$ 717,900 of grant funds. The project was then completed, having all available grant and loan funds expended.

City of Iron River

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Business-type Activities (Continued)

Sewer Fund

On March 13, 2002, the **City of Iron River** and the State of Michigan Department of Environmental Quality entered into a special order of consent regarding the City's sanitation sewage collection system. Under the agreement, the City was to install a telemetered alarm at the Riverside Lift Station by November 01, 2002. On July 01, 2002, the City agreed to raise average residential sewer rates per household to generate a minimum of \$ 227,000 annually, to be set aside in an escrow account, established by the City for future improvements on the wastewater collection system. Approved expenses (requiring DEQ approval) can be paid from these funds.

By July 31st of each year, the City is required to submit a report to the Marquette District Supervisor of the Surface Water Quality Division detailing the expenditures, income, and balances of this escrow account.

As of June 30, the City is in compliance with the consent order. The City has successfully negotiated with the DEQ to reduce the fines for the past violation of the Consent Order from \$ 386,000 to \$ 15,000.

RV Park Fund

The RV Park Fund had operating revenues of \$ 29,738, primarily consisting of park rental fees. Operating expenses were \$ 43,918, which exceeded revenues by \$ 14,180. As of June 30, the RV Park Fund had net assets of \$ 113,957.

During the current fiscal year, the City signed a management agreement with the Iron County Chamber of Commerce to take over the operations of the RV Park. It is expected that this will result in considerable savings to the City.

Financial Analysis of the Governmental Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

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Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported combined ending fund balances of \$ 1,255,289, of which \$ 622,115 is reserved and the remaining \$ 633,174 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the City ended the fiscal year with revenues slightly higher than the original and final projections. Total expenditures were also less than the final projection. At fiscal year end, the fund balance was higher than either the original or the final amended budget projections.

Revenues for the Major Street Fund were higher than both the original and the final budgetary allowances, as were the expenditures.

Revenues – Actual vs Budget

	Revenues Original Budget	Revenues Final Budget	Revenues Final Actual	Revenues Variance Actual vs Original Budget	Revenues Variance Actual vs Final Budget
General Fund	\$ 1690692	\$ 1743814	\$ 1756970	\$ 66278	\$ 13156
Major Street Fund	635309	710259	717186	81877	6927

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Governmental Funds (Continued)

Expenditures – Actual vs Budget

	Expenditures Original Budget	Expenditures Final Budget	Expenitures Final Actual	Expenditures Variance Actual vs Original Budget	Expenditures Variance Actual vs Final Budget
General Fund	\$ 1740743	\$ 1780404	\$ 1707096	\$ 33647	\$ 73308
Major Street Fund	725856	712375	638555	87301	73820

General fund financial and budgetary highlights of the fiscal year include:

- * Use of money and property exceeded final budgetary projections by \$ 15,527.
- * Charges for services were down slightly from the final amended budget, coming in at \$ 203,315, which is very close to the original and final budgeted estimates of \$ 205,000.
- * State of Michigan sales tax distribution of \$ 461,242 was less than anticipated in the final amended budget by \$ 4,604.
- * Expenditures in total for the general fund were \$ 1,707,096, less than the original budget of \$ 1,740,743 by \$ 33,647, and by the final amended budget by \$ 73,308. This was largely due to the uncertainty of State revenues and concern over general economic conditions, which resulted in measures to control spending by the City.

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Governmental Funds (Continued)

Major Street Fund financial and budgetary highlights of the fiscal year include:

- * State of Michigan Act 51 funding for major streets was slightly higher than the final budgeted amounts; as was the amount received from the State for trunk-line maintenance.
- * Total expenditures were \$ 638,555, considerably lower than budgeted in either the original or the final amended budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Water, Sewer, and RV Park funds at year-end were \$ 4,818,839, \$ 2,117,529, and \$113,957, respectively. The growth or change in net assets for the Water, Sewer, and RV Park funds were \$ 651,777, \$ 204,940, and (\$ 14,088), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30 is \$ 18,754,862. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 19,189,828, or approximately 70 percent of the estimated original cost of total assets. Major and local street fund comprise \$ 5,499,636, or 29 percent of this infrastructure; the Water Fund's infrastructure is appraised at \$ 10,991,674, or 57 percent of the total; the Sewer Fund's infrastructure is \$ 2,664,718, or 14 percent of the total. Infrastructure attributed to the General Fund is less than one percent, recorded at just \$ 33,800.00.

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Capital Asset and Debt Administration (Continued)

Capital Assets (Continued)

Major capital events during the current fiscal year included:

- * Completion of the City of Iron River Water System Improvement Project.
- * Through the cooperation and partnering of MDOT, the DDA, the City, and private ownership, the M189/US2 Intersection Widening Project was completed.
- * The skateboard park was completed.
- * A grant in the amount of \$ 82,500 was received for improvements at Nelson Field, with Friends of Nelson Field providing the funding for the track paving.
- * MEDC grant funds have been secured for the Lalley Sewer Project, the Inceptor Project, and the Michigan Cool Cities Blueprint Project. The City has been selected for Cool Cities Blueprints, which is the economic enhancement of traditional downtowns, uptowns, and neighborhoods. \$ 185,000 in Task Force funds have been secured for the Lalley Road Project.
- * The City Manager has negotiated the reduction of the DEQ fines from \$ 386,000 to \$ 15,000. The fines had been the result of a violation of a DEQ Consent Order from prior years.

Long-term debt

As of June 30, the City (including the enterprise funds) had total bonded debt outstanding of \$ 7,106,000. Of this amount, \$ 305,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's bonded debt represents bonds secured by specified revenue sources (i.e., revenue bonds).

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Long-term debt (Continued)

State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation is significantly higher than the City's outstanding general obligation debt.

Currently, the bond program does not maintain underlying bond ratings.

Other Economic Factors and Next Year's Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of City expenses to maintain a fiscally sound budget.

Despite the poor outlook of the State's budget, the City's guiding principles for the upcoming fiscal year is to continue building and maintaining strong neighborhoods, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

The City's fiscal year 2005-2006 general fund budget is \$ 1,927,341, representing a slight growth over the previous fiscal year.

The following areas highlight the City's priorities for the upcoming fiscal year:

- * New contracts will be negotiated with both unions.
- * Major improvements in the Mineral Hills water system must be made to allow the City to move its own wells.
- * Anticipate beginning a \$ 1.4 million dollar sewer and road improvement project on Lalley Road.

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Other Economic Factors and Next Year's Budget (Continued)

Economic Factors (Continued)

- * Nelson Field improvements projects are expected to be completed.
- * Representatives of the DDA and North Country Co-op are discussing plans, schedules, and finance options to move ahead with renovation of the old Central School building.

Requests for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Manager
City of Iron River
106 West Genesee Street
Iron River, Michigan 49935

BASIC FINANCIAL STATEMENTS

CITY OF IRON RIVER

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government	
	Governmental Activities	Business- type Activities
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents (Note C)	\$ 1,090,539	\$ 203,464
Investment in Central School Project	-	-
Receivables		
Taxes	21,334	
Accounts Receivable	29,673	177,740
Internal Balances	130,033	(130,033)
Due from Other Governmental Units	55,435	88,600
Total Current Assets	1,327,014	339,771
<u>Noncurrent Assets</u>		
Restricted Cash	-	799,214
Capital Assets, (Note H)	11,806,404	15,524,202
Less Accumulated Depreciation (Note H)	(5,880,478)	(2,695,266)
Total Noncurrent Assets	5,925,926	13,628,150
TOTAL ASSETS	\$ 7,252,940	\$ 13,967,921
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	1,721	107,731
Due to External Parties	37,346	-
Accrued Salaries and Benefits	32,308	8,865
Deferred Revenue	350	-
Bonds/Notes Payable, Due within one year (Note I)	96,611	98,000
Total Current Liabilities	168,336	214,596
<u>Noncurrent Liabilities</u>		
Bonds/Notes Payable (Note I)	420,244	6,703,000
Compensated Absences Payable	52,265	-
Total Noncurrent Liabilities	472,509	6,703,000
TOTAL LIABILITIES	\$ 640,845	\$ 6,917,596
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	5,409,071	6,027,936
Reserved for Streets and Highways	607,147	-
Reserved for Capital Projects	4,449	-
Reserved for Debt Service	10,519	-
Reserved for Water and Sewer Utility		1,022,389
Unreserved and Undesignated	580,909	-
TOTAL NET ASSETS	\$ 6,612,095	\$ 7,050,325

CITY OF IRON RIVER

STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>Totals</u>	<u>Component Units</u>	<u>Reporting Entity Totals</u>
\$ 1,294,003	\$ 109,598	\$ 1,403,601
-	13,109	13,109
21,334	1,224	22,558
207,413		207,413
-		-
<u>144,035</u>		<u>144,035</u>
1,666,785	123,931	1,790,716
799,214	-	799,214
27,330,606	-	27,330,606
<u>(8,575,744)</u>	<u>-</u>	<u>(8,575,744)</u>
19,554,076	-	19,554,076
\$ 21,220,861	\$ 123,931	\$ 21,344,792
109,452	1,259	110,711
37,346		37,346
41,173	603	41,776
350		350
<u>194,611</u>		<u>194,611</u>
382,932	1,862	384,794
7,123,244	-	7,123,244
<u>52,265</u>	<u>-</u>	<u>52,265</u>
7,175,509	-	7,175,509
\$ 7,558,441	\$ 1,862	\$ 7,560,303
11,437,007		11,437,007
607,147		607,147
4,449		4,449
10,519		10,519
1,022,389		1,022,389
<u>580,909</u>	<u>122,069</u>	<u>702,978</u>
-		-
<u>\$ 13,662,420</u>	<u>\$ 122,069</u>	<u>\$ 13,784,489</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		
		Charges	Operating	Capital
		for Services	Grants &	Grants
			Contributions	
FUNCTIONS-PROGRAMS		Expenses		
Primary Government -				
General government	\$ 492,204	\$ 33,182	\$ -	\$ -
Legislative	8,728			
Public safety	505,885	10,487	6,617	
Public works	274,743	225,479		
Highways and streets	515,058	2,169	804,040	
Sanitation and health	108,285	201,365		
Culture and recreation	79,861	75	8,755	
Community development	14,856			
Interest on Long-Term Debt	32,335			
Other Costs	6,458			
Intergovernmental (T&A)	37,346			
Depreciation (Unallocated)	429,234			
Total Governmental Activities	\$ 2,504,993	\$ 472,757	\$ 819,412	\$ -
Business-type Activities				
Water	925,985	787,264		725,525
Sewer	604,457	768,633		
RV Park	43,918	26,806		
Total Business-type Activities	1,574,360	1,582,703	-	725,525
Total Primary Government	4,079,353	2,055,460	819,412	
Component Units				
DDA	14,573			
TIF	78,478			
Community Pride	1,464			
Total Component Units	94,515	-	-	

General Revenues:

Taxes:

Property taxes levied for general operations
Property taxes levied for DDA and TIF
Other
Penalties and Interest on Taxes
State Sales Tax Distribution
Interest and Investment Earnings
Other

Total General Revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

CITY OF IRON RIVER STATEMENT OF ACTIVITIES <i>FISCAL YEAR ENDED JUNE 30, 2005</i>

**Net (Expense) Revenue and Changes
in Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (459,022)	\$ -	\$ (459,022)	\$ -
(8,728)		(8,728)	
(488,781)		(488,781)	
(49,264)		(49,264)	
291,151		291,151	
93,080		93,080	
(71,031)		(71,031)	
(14,856)		(14,856)	
(32,335)		(32,335)	
(6,458)		(6,458)	
(37,346)		(37,346)	
(429,234)		(429,234)	
<u>\$ (1,212,824)</u>	<u>\$ -</u>	<u>\$ (1,212,824)</u>	<u>\$ -</u>
	586,804	586,804	-
	164,176	164,176	
	(17,112)	(17,112)	
	<u>733,868</u>	<u>733,868</u>	<u>-</u>
(1,212,824)	733,868	(478,956)	-
			(14,573)
			(78,478)
			(1,464)
			<u>(94,515)</u>
776,621		776,621	
		-	135,394
10,318		10,318	
36,261		36,261	
461,242		461,242	
21,798	13,584	35,382	2,305
32,875	95,177	128,052	1,559
<u>1,339,115</u>	<u>108,761</u>	<u>1,447,876</u>	<u>139,258</u>
126,291	842,629	968,920	44,743
6,485,804	6,207,696	12,693,500	77,326
<u>\$ 6,612,095</u>	<u>\$ 7,050,325</u>	<u>\$ 13,662,420</u>	<u>\$ 122,069</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and Investments (Note C)	\$ 462,842	\$ 391,527	\$ 236,170	\$ 1,090,539
Receivables:				
Taxes	21,334			21,334
Accounts Receivable	29,673			29,673
Due from Other Funds	130,814			130,814
Due from Other Governmental Units	55,435			55,435
Total Assets	<u>\$ 700,098</u>	<u>\$ 391,527</u>	<u>\$ 236,170</u>	<u>\$ 1,327,795</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	1,721			1,721
Accrued Salaries and Benefits	27,507	3,182	1,619	32,308
Due to Other Funds	37,346	469	312	38,127
Deferred Revenue (Note A)	350			350
Total Liabilities	66,924	3,651	1,931	72,506
<u>Fund Balances</u>				
Reserved for Streets & Highways	-	387,876	219,271	607,147
Reserved for Capital Projects			4,449	4,449
Reserved for Debt Service			10,519	10,519
Unreserved and undesignated	633,174		-	633,174
Total Fund Balances	633,174	387,876	234,239	1,255,289
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 700,098</u>	<u>\$ 391,527</u>	<u>\$ 236,170</u>	<u>\$ 1,327,795</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET ASSETS**

JUNE 30, 2005

Fund Balances - Total Governmental Funds	\$ 1,255,289
---	---------------------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	11,806,404
Accumulated depreciation is:	(5,880,478)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable	(516,855)
Compensated Absences	(52,265)

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Accrued interest is not included as a liability
in governmental funds

-

Total Net Assets - Governmental Activities	<u>\$ 6,612,095</u>
---	----------------------------

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUE</u>				
General Property taxes	\$ 776,621	\$ -	\$ -	\$ 776,621
Other local taxes	10,318			10,318
Penalties and interest on taxes	36,261			36,261
Licenses, permits, and fines	10,487			10,487
Sale of property				-
Use of money and property	221,534	9,691	49,528	280,753
Charges for services	203,315			203,315
Miscellaneous	30,575		11,055	41,630
Recovered Costs	-	348,266		348,266
Intergovernmental	467,859	359,229	96,545	923,633
TOTAL REVENUE	\$ 1,756,970	\$ 717,186	\$ 157,128	\$ 2,631,284
<u>EXPENDITURES</u>				
Current Operating:				
General government	491,426	-	-	491,426
Legislative	8,728			8,728
Public safety	503,943			503,943
Public works	274,020			274,020
Highways and streets	94,990	263,472	155,639	514,101
Sanitation and health	108,285			108,285
Culture and recreation	79,861			79,861
Community development	14,856			14,856
Debt Service				
Principal			103,356	103,356
Interest and Fees			32,335	32,335
Capital Outlay	130,987	375,083	46,989	553,059
Other Costs			6,458	6,458
TOTAL EXPENDITURES	\$ 1,707,096	\$ 638,555	\$ 344,777	\$ 2,690,428

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 49,874	\$ 78,631	\$ (187,649)	\$ (59,144)
<u>Other Financing Sources (Uses)</u>				
Operating transfers in			158,805	158,805
Operating transfers out	(131,151)	(65,000)		(196,151)
Transfer to Component Unit				-
Total Other Financing Sources(Uses)	(131,151)	(65,000)	158,805	(37,346)
Net Change in Fund Balances	(81,277)	13,631	(28,844)	(96,490)
FUND BALANCES-BEGINNING OF YEAR	714,451	374,245	263,083	1,351,779
FUND BALANCES-END OF YEAR	<u>\$ 633,174</u>	<u>\$ 387,876</u>	<u>\$ 234,239</u>	<u>\$ 1,255,289</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (96,490)**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense	(429,234)
Capital Outlay	553,059

Total

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long term debt)	103,356
---	---------

Increases (Decreases) in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	(4,400)
---	---------

Sale of assets is recorded in the governmental funds as revenue; only
the gain is reported in the statement of activities

Change in Net Assets of Governmental Activities **\$ 126,291**

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2005

	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>ASSETS</u>		
<i>Current Assets</i>		
Cash, unrestricted	\$ 140,321	\$ 62,808
Accounts Receivable	85,500	92,240
Due from other governmental units	88,600	
Due from other funds	<u>153,331</u>	
Total Current Assets	467,752	155,048
<i>Noncurrent Assets</i>		
Restricted cash	352,014	447,200
Capital assets:		
Land and Buildings	679,027	2,000
Equipment	985,411	
Infrastructure	10,991,674	2,664,718
Less:		
Allowance for depreciation	<u>(1,596,405)</u>	<u>(1,011,411)</u>
Total capital assets, net	11,059,707	1,655,307
Total Noncurrent Assets	11,411,721	2,102,507
TOTAL ASSETS	\$ 11,879,473	\$ 2,257,555
<u>LIABILITIES</u>		
<i>Current Liabilities</i>		
Accounts payable	106,801	930
Accrued benefits	6,158	2,407
Due to other funds	146,675	136,689
Current portion of long-term debt	98,000	-
Deferred revenues	<u>-</u>	<u>-</u>
Total Current Liabilities	357,634	140,026
<i>Non-current Liabilities</i>		
Revenue bonds payable	<u>6,703,000</u>	<u>-</u>
Total Non-current Liabilities	6,703,000	-
TOTAL LIABILITIES	7,060,634	140,026
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	4,258,707	1,655,307
Reserved	560,132	462,222
Unreserved, undesignated	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	\$ 4,818,839	\$ 2,117,529

CITY OF IRON RIVER

STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2005

<u>RV PARK FUND</u>	<u>ENTERPRISE FUNDS</u>
\$ 335	\$ 203,464
	177,740
	88,600
	153,331
<hr/>	<hr/>
335	623,135
	799,214
201,372	882,399
	985,411
	13,656,392
(87,450)	(2,695,266)
<hr/>	<hr/>
113,922	12,828,936
113,922	13,628,150
\$ 114,257	\$ 14,251,285
	107,731
300	8,865
	283,364
	98,000
	-
<hr/>	<hr/>
300	497,960
-	6,703,000
<hr/>	<hr/>
-	6,703,000
300	7,200,960
	113,922
35	6,027,936
	1,022,389
<hr/>	<hr/>
\$ 113,957	\$ 7,050,325

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>WATER FUND</u>	<u>SEWER FUND</u>
OPERATING REVENUES		
Charges for Services	\$ 738,503	\$ 768,633
Equipment Rental	48,761	-
Miscellaneous	58,324	33,921
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	\$ 845,588	\$ 802,554
 OPERATING EXPENSES		
Personal Services and Benefits	264,786	111,246
Contractual Services	12,017	392,812
Repairs and Maintenance	2,632	16,631
Other Supplies and Expenses	147,973	42,772
Depreciation	248,377	40,996
Miscellaneous	-	-
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	\$ 675,785	\$ 604,457
 Operating Income (Loss)	 169,803	 198,097
 Non-Operating Revenues (Expenses:)		
Federal Grant-Waterline Construction	717,900	
Wellhead Protection Grant	7,625	
Interest Revenue	6,649	6,843
Interest Expense	(250,200)	
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	481,974	6,843
 Change in Net Assets	 651,777	 204,940
 NET ASSETS-BEGINNING OF YEAR	 <u>4,167,062</u>	 <u>1,912,589</u>
 NET ASSETS-END OF YEAR	 <u>\$ 4,818,839</u>	 <u>\$ 2,117,529</u>

CITY OF IRON RIVER

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED JUNE 30, 2005

<u>RV PARK FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
\$ 26,806	\$ 1,533,942
	48,761
<u>2,932</u>	<u>95,177</u>
\$ 29,738	\$ 1,677,880
10,515	386,547
10,460	415,289
732	19,995
15,072	205,817
7,139	296,512
	-
<u> </u>	<u> </u>
\$ 43,918	\$ 1,324,160
(14,180)	353,720
	717,900
	7,625
92	13,584
	<u>(250,200)</u>
<u> </u>	<u> </u>
92	488,909
(14,088)	842,629
<u>128,045</u>	<u>6,207,696</u>
<u>\$ 113,957</u>	<u>\$ 7,050,325</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM (USED BY)	<u>Water Fund</u>	<u>Sewer Fund</u>
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 650,200	\$ 792,631
Other operating revenues	112,549	8,561
Cash payments to employees for services	(264,419)	(111,092)
Cash payments to goods and services	(229,384)	(454,285)
Other operating expenses	-	-
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	\$ 268,946	\$ 235,815
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	60,296	10,970
(Increase) decrease in due from other funds	(18,138)	
Net operating transfers in (out)	-	
	<hr/>	<hr/>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	42,158	10,970
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	(570,201)	-
Principal payment on long-term bonds	(94,000)	
Interest paid on long-term bonds	(250,200)	
Interest and tax expense	-	
Proceeds from borrowings	-	
Cost of Issuance - Bonds	-	
Contributed capital grants	717,900	
Other Grants	7,625	
	<hr/>	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(188,876)	-
<u>INVESTING ACTIVITIES</u>		
Interest Income	6,649	6,843
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	6,649	6,843
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	128,877	253,628
 Cash and Cash Equivalents, Beginning of Year	 <hr/> 363,458	 <hr/> 256,380
Cash and Cash Equivalents, End of Year	\$ 492,335	\$ 510,008

CITY OF IRON RIVER

COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

<u>RV Park Fund</u>	<u>Totals</u>
\$ 26,806	\$ 1,469,637
2,932	124,042
(10,500)	(386,011)
(26,264)	(709,933)
<u>-</u>	<u>-</u>
\$ (7,026)	\$ 497,735
-	71,266
	(18,138)
<u>-</u>	<u>-</u>
-	53,128
-	(570,201)
	(94,000)
	(250,200)
	-
	-
	-
	717,900
	<u>7,625</u>
<u>-</u>	<u>-</u>
-	(188,876)
<u>92</u>	<u>13,584</u>
92	13,584
(6,934)	375,571
<u>7,269</u>	<u>627,107</u>
\$ 335	\$ 1,002,678

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

COMBINING STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS*FISCAL YEAR ENDED JUNE 30, 2005***CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Income	\$	169,803	\$	198,097
Adjustment to reconcile operating income to net cash provided by operating activities :				
. Depreciation		248,377		40,996
. Provision for uncollectible accounts		-		-
. Changes in assets and liabilities :				
(Increase) Decrease in accounts receivable		(82,839)		(1,362)
Increase (Decrease) in accounts payable		(66,762)		(2,070)
Increase (Decrease) in accrued benefits		367		154
Increase (Decrease) in customer deposits		-		-
NET CASH FROM OPERATING ACTIVITIES	\$	<u>268,946</u>	\$	<u>235,815</u>

CITY OF IRON RIVER

COMBINING STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS

FISCAL YEAR ENDED JUNE 30, 2005

\$	(14,180)	\$	353,720
	7,139		296,512
	-		-
	-		(84,201)
	-		(68,832)
	15		536
	-		-
\$	(7,026)	\$	497,735

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2005

	<u>PRIVATE-PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 14,919	\$ 185	\$ 15,104
Due From Other Funds	<u>37,346</u>	<u>-</u>	<u>37,346</u>
TOTAL ASSETS	\$ 52,265	\$ 185	\$ 52,450
<u>LIABILITIES</u>			
Due To Other Funds	-	-	-
Accrued Benefits	<u>-</u>	<u>185</u>	<u>185</u>
TOTAL LIABILITIES	\$ -	\$ 185	\$ 185
<u>NET ASSETS</u>			
Restricted for Employee Benefits	52,265	-	52,265
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	\$ 52,265	\$ -	\$ 52,265

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS*FISCAL YEAR ENDED JUNE 30, 2005*

	PRIVATE-PURPOSE TRUST FUND
<u>ADDITIONS</u>	
Contributions from the City of Iron River	\$ 37,346
Investment Earnings	<u>379</u>
TOTAL ASSETS	\$ 37,725
<u>DEDUCTIONS</u>	
Employee Sick Leave Benefits Paid	<u>33,330</u>
TOTAL DEDUCTIONS	33,330
CHANGE IN NET ASSETS	4,395
NET ASSETS - BEGINNING OF YEAR	<u>47,870</u>
NET ASSETS - END OF YEAR	<u>\$ 52,265</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**STATEMENT OF NET ASSETS
COMPONENT UNITS**

JUNE 30, 2005

	<u>DDA</u>	<u>TIF</u>	<u>Community Pride</u>	<u>Total</u>
<u>ASSETS</u>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 13,449	\$ 96,054	\$ 95	\$ 109,598
Investment in Central School Project		13,109		13,109
Receivables:				
Accounts	-			-
Taxes	1,224			1,224
Total Current Assets	14,673	109,163	95	123,931
<i>Noncurrent Assets</i>				
Capital assets	-	-	-	-
Less:				
Accumulated depreciation	-	-		-
Total Noncurrent Assets	-	-	-	-
TOTAL ASSETS	\$ 14,673	\$ 109,163	\$ 95	\$ 123,931
<u>LIABILITIES</u>				
<i>Current Liabilities</i>				
Accounts Payable	1,259	-	-	1,259
Accrued Employee Benefits		603	-	603
Total Current Liabilities	1,259	603	-	1,862
TOTAL LIABILITIES	1,259	603	-	1,862
<u>NET ASSETS</u>				
Unreserved and Undesignated	13,414	108,560	95	122,069
TOTAL NET ASSETS	\$ 13,414	\$ 108,560	\$ 95	\$ 122,069

The notes to the financial statements are an integral part of this report.

CITY OF IRON RIVER

**STATEMENT OF ACTIVITIES
COMPONENT UNITS**

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>
Downtown Development Authority	\$ 14,573	\$ -	\$ -
Tax Increment Financing Authority	78,478		
Community Pride	<u>1,464</u>	<u> </u>	<u> </u>
TOTAL COMPONENT UNITS	\$ 93,051	\$ -	\$ -

General Revenues:

Property taxes
Interest and Investment earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets-Beginning of Year

Net Assets-End of Year

CITY OF IRON RIVER

**STATEMENT OF ACTIVITIES
COMPONENT UNITS**

FISCAL YEAR ENDED JUNE 30, 2005

Net (Expense) Revenue and Changes in Net Assets		Community Pride	
<u>DDA</u>	<u>TIF</u>	<u>Pride</u>	<u>Totals</u>
\$ (14,573)	\$ -	\$ -	\$ (14,573)
	(78,478)		(78,478)
		(1,464)	(1,464)
\$ (14,573)	\$ (78,478)	\$ (1,464)	\$ (94,515)
18,715	116,679		135,394
272	2,033		2,305
		1,559	1,559
18,987	118,712	1,559	139,258
4,414	40,234	95	44,743
9,000	68,326	-	77,326
<u>\$ 13,414</u>	<u>\$ 108,560</u>	<u>\$ 95</u>	<u>\$ 122,069</u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF IRON RIVER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **City of Iron River**, Iron River, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **City of Iron River** was organized and began operations on July 01, 2000 as a result of the consolidation of three municipalities - the Cities of Iron River and Stambaugh and the Village of Mineral Hills. As a result of the consolidation, all assets, liabilities, and fund equities for all funds of the respective governmental units were combined to form the opening account balances of the new City. Any reservations or restrictions in the funds of the combining municipalities were also reserved or restricted in the new City of Iron River. The **City of Iron River** covers an area of approximately 10.125 square miles, operates under a city manager and an elected board of five councilmen and provides services to its approximately 3,614 residents, including police and fire protection, parks and recreation, waste collection and general administrative services.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

In addition, the City owns and operates a water and sewer system and an RV Park as enterprise activities. In accordance with the provisions of GASB 14, certain other governmental organizations are considered to be part of the City entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence. On this basis, the financial statements of the Tax Incremental Financing Authority, the Downtown Development Authority, and Community Pride are included in the financial statements of the City as discretely presented component units.

Downtown Development Authority/Tax Incremental Financing Authority

On November 21, 1979, the City Commission of the **City of Iron River** adopted an ordinance to establish the downtown development authority and to designate the boundaries of the downtown district.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

**Downtown Development Authority/Tax Increment
Financing Authority (Continued)**

The Downtown Development Authority Development Plan and Tax Increment Financing Plan were prepared pursuant to the provisions of Act No. 197 of the Michigan Public Acts of 1975, as amended, MCLA § 125.1651 et. seq. (the "Act").

The Act was enacted to provide a means for local units of government to correct and prevent deterioration in business districts; to encourage historic preservation; to authorize the acquisition and disposal of interests in real and personal property; to authorize the creation and implementation of development plans in the districts; to promote the economic growth of the districts; to create a board; to prescribe its powers and duties; to authorize the levy and collection of taxes; to authorize the issuance of bonds and other evidences of indebtedness; and to authorize the use of tax increment financing.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

**Downtown Development Authority/Tax Increment
Financing Authority (Continued)**

Tax increment financing is a government financing program which contributes to economic growth and development to facilities, structures or improvements within a development area, thereby facilitating economic growth and development. Tax increment financing mandates the transfer of tax increment revenues by municipal and county treasurers to authorities created under the Act in order to effectuate the legislative government programs to eliminate property value deterioration and to promote economic growth. (MCLA 125.1651a.)

The Act seeks to accomplish its goals by providing local units of government with the necessary legal, monetary and organizational tools to eliminate property value deterioration and to promote economic growth through publicly initiated projects undertaken cooperatively with privately initiated projects.

CITY OF IRON RIVER

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

**Downtown Development Authority/Tax Increment
Financing Authority (Continued)**

The Development Plan and Tax Increment Financing Plan have been developed in accordance with the purposes of the Act based on the problems and priorities as perceived by the Downtown Development Authority of the **City of Iron River** and has been submitted to the City Commission of the **City of Iron River** for its approval.

COMMUNITY PRIDE

Community Pride was organized by community-minded volunteers to solicit donations from businesses and individuals in the community. Proceeds are used to beautify the City's downtown area with placement of barrels of flowers throughout the City's downtown district.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but it is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method.

However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements. When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

The **City of Iron River** and the **City of Stambaugh Building Authorities** are blended as part of the primary government because their sole purpose is to finance and construct the City's public buildings.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

City of Iron River Building Authority (Continued)

The City of Iron River Building Authority was created by the City and organized as a separate legal entity.

The Articles of Incorporation were adopted by the City Commission of the **City of Iron River** on November 9, 1993 for the purpose of forming a nonprofit municipal Building Authority under the provisions of Act 31, Public Acts of Michigan, 1948.

The Authority was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and maintaining a building or buildings, automobile parking lots or structures, recreational facilities, and the necessary site or sites therefore, together with appurtenant properties and facilities necessary or convenient for the effective use thereof, for use of any legitimate public purpose of the **City of Iron River**.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

City of Iron River Building Authority (Continued)

The Authority is governed by a Board of Commissioners, each to be elected by the City Commission of the **City of Iron River**, except that no member of the legislative body of the **City of Iron River** shall be eligible for membership or appointment to this Authority.

The Authority approved a resolution on October 11, 1995 to issue bonds in the aggregate principal sum of \$ 320,000 in anticipation of the commitments of the City under the Contract to finance the renovation in the City Hall to comply with the Americans with Disabilities Act, all as set out in a certain Full Faith and Credit General Obligation Contract of Lease between the City and the Authority.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

City of Iron River Building Authority (Continued)

The 1995 Building Authority Bond consists of one single fully registered non-convertible bond of the denomination of \$320,000, payable in principal installments on November 01 of each year.

The serial principal installments bear interest at the rate of not to exceed 5.125% per annum, payable on the first day of May and November of each year. The first principal installment of \$ 5000, along with accrued interest, was due on November 01, 1996.

City of Stambaugh Building Authority

The Stambaugh Building Authority was created by the former City of Stambaugh and organized as a separate legal entity.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

City of Stambaugh Building Authority (Continued)

The Articles of Incorporation were adopted by the City Commission of the former City of Stambaugh on April 07, 1993 for the purpose of forming a nonprofit municipal building authority under the provisions of Act 31, Public Acts of Michigan, 1948.

The Authority was incorporated for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and maintaining a building or buildings, automobile parking lots or structures for use of any legitimate public purpose of the City.

The Authority is governed by a Board of three members elected by the City Commission, except that no member of the legislative body of the City shall be eligible for membership or appointment to this Authority.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

BLENDED COMPONENT UNITS (Continued)

City of Stambaugh Building Authority (Continued)

The Authority entered into an agreement through Michigan Municipal Bond Authority's State Revenue Sharing Pledge Program to borrow \$ 205,000. The Authority used the proceeds from general obligation limited tax bonds to finance the construction of a Department of Public Works facility for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINT VENTURES (Continued)

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

West Iron County Sewer Authority

The **City of Iron River** has entered into an agreement with several governmental entities to form the West Iron County Sewer Authority.

The Authority was established in August 1972 under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and was organized to provide sewer service to the cities of Iron River, Caspian, Gaastra, and a portion of Iron River Township. The first grant applications were filed in 1982.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

Members from each participating municipality are appointed by their respective governmental entities to serve on the Board of Trustees of the West Iron County Sewer Authority.

Pursuant to the terms of the Authority's Sewer Use Ordinance adopted by the Authority and each Constituent Municipality, the Authority bills each Constituent Municipality monthly based on such Constituent Municipality's percentage of Equal Dwelling Units ("EDUs") to the total member of EDUs for the entire system.

Billing to end users is done by each Constituent Municipality using its own billing system and methodology.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

Under the EDU system, the Authority adopts a preliminary budget in April of each year for its next fiscal year beginning the following July 01.

This preliminary budget is presented to each Constituent Municipality for review and consideration in its budgeting process. Prior to adopting its final budget in June of each year for the fiscal year beginning the following July 1, the Authority holds a public hearing with respect to the preliminary budget.

The preliminary and final budgets calculated EDU charges to cover both operation, maintenance, and replacement ("OMR") expenses and debt retirement expenses.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

Included in OMR charges are funds for future replacements of all major plant equipment.

During the fiscal year ended June 30, 2005, the **City of Iron River** paid to the Authority fees totaling \$ 356,589 for OMR and debt retirement.

Financial statements for the West Iron County Sewer Authority can be requested by writing to:

West Iron County Sewer Authority
P.O. Box 246
Caspian, Michigan 49915

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

West Iron County Fire Board

The West Iron County Fire Board was organized in 1987 and provides fire protection for Iron River, Bates and Stambaugh Townships, and the **City of Iron River**, Iron County, Michigan. The Board operates under an appointed Board of Commissioners (9 people) and provides fire protection services to more than 4500 residents.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

West Iron County Fire Board (Continued)

The Board is funded by assessments from the participating municipalities. Financial statements are available by writing to the West Iron County Fire Board at:

West Iron County Fire Board
P.O. Box 203
Iron River, Michigan 49935

West Iron County Volunteer Fire Department The West Iron County Volunteer Fire Department was organized in 1987 and consists of volunteer fire fighters from the **City of Iron River** and the townships of Bates, Iron River, and Stambaugh. The purpose of the organization is to preserve and protect all life and property as declared by the West Iron County Fire Board.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

**West Iron County Volunteer Fire Department
(Continued)**

The officers, elected by a plurality of votes of members present at the annual meeting consist of a Chief, Assistant Chief, First Captain, Second Captain, Training Officer, and Secretary/Treasurer.

Complete financial statements of the West Iron County Volunteer Fire Department can be obtained from:

West Iron County Volunteer Fire Department
640 9th Street
Iron River, Michigan 49935

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

Iron River Housing Commission

The Iron River Housing Commission ("The Authority") is a non-profit corporation which was organized under the laws of the State of Michigan to provide Low-Rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

The Mayor of Iron River appoints the five member Board of Commissioners for five year terms.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

RELATED ORGANIZATIONS (Continued)

Iron River Housing Commission (Continued)

The Board sets policy of the Authority and hires the Executive Director who hires and directs the Authority's staff.

The Authority is not a department of the **City of Iron River**. However, the Authority cooperates closely with the City in carrying out housing programs within the Iron River area.

The basis of the Authority's relationship with the City is a cooperative agreement, which calls for the City to provide support services (police, fire, etc.) to the Authority's developments. In exchange, the Authority makes voluntary payments in lieu of taxes (PILOT) to the **City of Iron River**.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

RELATED ORGANIZATIONS (Continued)

Iron River Housing Commission (Continued)

Financial statements can be obtained by writing to:

Iron River Housing Commission
236 Third Avenue
Iron River, Michigan 49935

Stambaugh Housing Commission

The Stambaugh Housing Commission was formed in 1968 under the criteria established for low income housing programs by the United States Department of Housing and Urban Development.

The Commission operates under a board of commissioners appointed by the City Council.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

RELATED ORGANIZATIONS (Continued)

Stambaugh Housing Commission (Continued)

Financial statements can be requested by writing to:

Stambaugh Housing Commission
208 Jefferson Avenue
Iron River, Michigan 49935

BASIS OF PRESENTATION

The City follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

CITY OF IRON RIVER

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) reserved; and 3) unreserved.

Statement of Program Activities

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules(Continued)

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The discretely presented component units are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

In the fund financial statements, financial transactions and accounts of the City are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing sets of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The following is a brief description of the specific funds used by the City.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues. The General Fund is always a major fund for reporting purposes.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The City's *Major & Local Street Funds* are *Special Revenue Funds*. The *Major Street Fund* is considered a major fund for reporting purposes.

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS

Debt Service Fund (Continued)

The *Iron River* and *Stambaugh Building Authorities* have been included as *Debt Service Fund* types. The governmental funds use the modified accrual basis of accounting.

Capital Projects Fund

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds. The various resources of the governmental unit to be used in the projects, such as General Fund contributions, grants from other units of government and bond proceeds, flow into the Capital Project Fund. Expenditures incurred in the development of the facility are also recorded within the Capital Project Fund.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose. The *Water Fund*, *Sewer Fund*, and *RV Park Fund* are *Proprietary Funds*.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS (Continued)

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The City's Current Tax Collection Fund, the Sick Leave Fund, and the Employee Trust Fund are Fiduciary Funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

Accounting for Expendable Trust funds parallels accounting for governmental funds (modified accrual basis/approximate flow of current financial resources). Pension Trust Funds and Nonexpendable Trust Funds are accounted for in a manner similar to proprietary funds (accrual basis/flow of economic resources).

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, financial statement of Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the City's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The City classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the City for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the City for future expenditures.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING

The City follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Although no longer required, the City adopts budgets for the Capital Projects and Debt Retirement Funds as well. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 of the preceding fiscal year, the City prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**BUDGETS AND BUDGETARY ACCOUNTING
(Continued)**

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the members of the City Council.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX

Property taxes are levied on December 31 and payable in two installments July 01 and December 01. They are declared delinquent on March 01 of the following year.

The City bills and collects its own property taxes and also collects taxes for the school district and County. Collections for the schools and county are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent they are receivable. The County of Iron purchases from the City the delinquent real property taxes outstanding as of March 31 of each year. The 2004 Taxable Valuation of the City was \$ 43,254,883, on which was levied 19.7489 mills for general operation of the City. In addition, the City collects a 1% administration fee on all taxes collected.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX (Continued)

The Board further established penalties on all taxes collected on or before August 01, pursuant to the following schedule:

1% penalty if taxes are paid on August 01 through August 30; an additional 1% penalty on all taxes paid on September 01 through February 28.

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the governmental-wide statements to the extent the City's capitalization threshold of \$ 1,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings..... 20 - 30 years

Infrastructure..... 10 - 65 years

**Furniture and Other
Equipment..... 5 - 20 years**

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

To the extent the City's capitalization threshold of \$ 1,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

Land Improvements..... 20 years

Equipment..... 5 - 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COMPENSATED ABSENCES

The agreement between the **City of Iron River** and the **City of Iron River** Employees' Chapter of Local #1424, Affiliated with Michigan Council #25 AFSCME, AFL-CIO provides for the following benefits:

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

Sick Leave

Sick leave with pay shall be granted the employees on the following basis: Each employee shall earn (1) day of paid sick leave for each month of continuous service, which sick leave may be accumulated up to a total of two hundred (200) days.

One half of the accumulated sick leave, plus the related costs of FICA, Medicare, and retirement, will be payable at termination.

As of June 30, calculated at the current rates of pay, employees of the City have accumulated sick leave benefits in the amount of \$ 172,890.22. At 50% payout, the City's liability for accumulated sick leave, plus the related costs of FICA, Medicare, and retirement is \$ 104,529.43.

CITY OF IRON RIVER

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

Sick Leave (Continued)

The City has policy to fund one-half the sick leave liability and has established a Sick Leave Fund within the Trust and Agency Fund for this purpose.

The funding level required to meet this obligation at June 30, 2005 is \$ 52,265. The City has met this funding obligation as of June 30.

Vacation

Employees earn vacation benefits on a graduated scale based upon years of continuous service. Vacation time cannot be accumulated from one year to another, and if not taken by the employment anniversary date, is lost.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES (Continued)

Vacation (Continued)

As of June 30, 2005, calculated at the current rates of pay, the City's liability for accrued vacation plus the related costs of FICA and Medicare is \$ 41,775.

POST RETIREMENT EMPLOYEE BENEFITS

The **City of Iron River**, as stated in the agreement between the **City of Iron River** and the **City of Iron River** employees' Chapter of Local #1424, affiliated with the Michigan Council #25 AFSCME, AFL-CIO, will pay two-thirds of the insurance premium for Blue Cross/Blue Shield Hospital and Medical Insurance for the employee only, after he/she retires, from the age of sixty-two and through the age of sixty-five.

CITY OF IRON RIVER

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INTER-FUND ACTIVITIES

INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE B – INTER-FUND ACTIVITIES (CONTINUED)

The amounts of the inter-fund receivables and payables as of June 30, 2005 were as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General Fund	\$ 130814	\$ 37346
Sick Leave Fund	37346	0
Major Street Fund	0	469
Local Street Fund	0	312
Water Fund	113000	146675
Water Construction Fund	40331	0
Sewer Fund	0	136689
Trust and Agency Fund	0	0
Employee Trust Fund	<u>0</u>	<u>0</u>
Totals	\$ <u>321491</u>	\$ <u>321491</u>

The above inter-fund receivables/payables are the result of operating activities occurring prior to year-end, and are expected to be cleared shortly thereafter.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE B – INTER-UND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the fiscal year ended June 30, 2005, the City authorized the following transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 131151
Debt Service	88729	0
Capital Projects	5076	0
Sick Leave Fund	37346	0
Major Street Fund	0	65000
Local Street Fund	<u>65000</u>	<u>0</u>
Totals	\$ <u>196151</u>	\$ <u>196151</u>

The General Fund transfers funds to the Debt Service Fund to provide monies for payment of principal and interest on notes/loans not provided for by Debt Service millage.

The General Fund transferred funds to Capital Projects for the skateboard park.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE B – INTER-FUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS (Continued)

The General Fund transferred monies to the Sick Leave Fund to meet funding obligations for employee sick leave reserve.

The Major Street Fund transferred a portion of its Act 51 funding, as allowed by statute, to supplement the needs of the Local Street Fund.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

As a result of the consolidation of the Cities of Iron River and Stambaugh, and the Village of Mineral Hills, all restrictions in the use of funds of the respective cities and village are also restricted in the new **City of Iron River**.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

STAMBAUGH WATER SYSTEM REVENUE BONDS

The bonding ordinance for the Water System Revenue Bonds of the former City of Stambaugh, requires certain cash balances be reserved for bond repayment.

Bond and Interest Redemption Fund

Revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments accruing on the bonds.

The City had a payment for principal and interest due on May 01, 2005, so the balance required in the bond and interest redemption account would be zero. The City would transfer its next quarterly deposit in July, 2005.

The actual balance on June 30, 2005 in the bond and interest redemption account was \$ 25,720.

The City was in compliance with this requirement.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STAMBAUGH WATER SYSTEM REVENUE BONDS
(Continued)

Reserve Account

A reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 1,000 per month, beginning on July 01, 1999, until there is accumulated the sum of \$ 120,000. No further deposits need be made thereafter.

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

On June 30, the City was required to have a balance of \$ 72,000 in the Reserve Account. The actual June 30, 2005 balance was \$ 75,555.

The City was in compliance with this requirement.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

**STAMBAUGH WATER SYSTEM REVENUE BONDS
(Continued)**

Repair, Replacement, and Improvement Fund

The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the First Series Bond.

If the amount in the Bond and Interest Redemption Fund and the Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the moneys in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

**STAMBAUGH WATER SYSTEM REVENUE BONDS
(Continued)**

**Repair, Replacement, and Improvement Fund
(Continued)**

Beginning July 01, 1999, the City was required to deposit into the RRI fund an annual amount not less than \$22,000 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year month.

On June 30, the City was required to have a balance of \$ 60,000 in the Repair, Replacement, and Improvement Account. The actual balance on June 30, 2005 was \$ 62,871.

The City was in compliance with this requirement.

**CITY OF IRON RIVER 2001 WATER SUPPLY SYSTEM
REVENUE BOND**

The bonding ordinance for the City of Iron River 2001 Water Supply System Revenue Bond requires certain cash balances be reserved, as follows:

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

**CITY OF IRON RIVER 2001 WATER SUPPLY SYSTEM
REVENUE BOND (Continued)**

Bond and Interest Redemption Fund

Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments on the bonds.

The City had a payment for principal and interest due on May 01, 2005, so the balance required in the bond and interest redemption account would be zero. The City would transfer its next quarterly deposit in July, 2005. The actual balance on June 30, 2005 in the bond and interest redemption account was \$ 31,884.

On June 30, the City was in compliance with this requirement.

Reserve Account

A reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 5750 per quarter, beginning on July 01, 2001, until there is accumulated the sum of \$ 230,000. No further deposits need be made thereafter.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

**CITY OF IRON RIVER 2001 WATER SUPPLY SYSTEM
REVENUE BOND (Continued)**

Reserve Account (Continued)

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

On June 30, the City was required to have a balance of \$ 92,000 in the reserve account. The actual balance on June 30, 2005 was \$ 94,372.

City was in compliance with this requirement.

Repair, Replacement, and Improvement Fund

The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the system, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the Bond.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

**CITY OF IRON RIVER 2001 WATER SUPPLY SYSTEM
REVENUE BOND (Continued)**

**Repair, Replacement, and Improvement Fund
(Continued)**

If the amount in the Bond and Interest Redemption Fund and Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the moneys in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

Beginning July 01, 2001, the City was required to deposit into the RRI fund a quarterly amount not less than \$9500 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year quarter.

On June 30, the City was required to have a balance of \$ 60,000 in the Repair, Replacement, and Improvement Account. The actual balance on June 30, 2005 was \$ 61,548.

City was in compliance with this requirement.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

RESTRICTED CASH - SEWER FUND

As a result of an administrative consent order between the **City of Iron River** and the State of Michigan Department of Environmental Quality, the City was required, no later than July 01, 2002, to raise average residential sewer rates per household to generate a minimum of \$ 227,100 annually. This amount is required to be set aside as an escrow account, established by the City, for future improvements on the wastewater collection system, including engineering expenses. The amount to be collected annually must be adjusted for inflation on July 01 every year, using the American City and County Construction Cost Index determination of average annual inflation.

The required balance of this account on June 30, 2005, was \$ 364,561. The actual balance was \$ 407,670.

The City is in compliance with this consent order.

CITY OF IRON RIVER

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT

On June 30, 2005, the carrying value of the City's deposits (Primary Government) was \$ 2,108,321 and is comprised of cash and deposits reflected in the following funds.

<i>Governmental Funds</i>	
General Fund	\$ 462842
Major Street Fund	391527
Local Street Fund	221202
Debt Service	6758
Building Authority	3761
Capital Projects (Equipment) Fund	<u>4449</u>
 <i>Total Governmental Funds</i>	 \$ 1090539

(Continued on page 116)

CITY OF IRON RIVER

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

(Continued from previous page)

<i>Enterprise Funds</i>	
Water Fund	\$ 492335
Sewer Fund	510008
RV Park Fund	<u>335</u>
<i>Total Enterprise Funds</i>	\$ 1002678
<i>Fiduciary Funds</i>	
Tax Collection Fund	\$ 0
Sick Leave Fund	14919
Employee Trust Fund	<u>185</u>
<i>Total Fiduciary Funds</i>	\$ 15104
Total Primary Government	\$ 2108321